

**Schedule 80/20 Related-Party Expenses**

Attach to your Form IL-1120, IL-1120-ST, IL-1065, or IL-1041. For tax years ending on or after December 31, 2004.

Year ending

Month _____ Year _____
IL Attachment No. 14

Write your name as shown on your Form IL-1120.

Write your Federal employer identification number (FEIN).

Step 1: Identify your 80/20 companies**A****B****C****D**
TOTALS

- 1** Write the name of each 80/20 company **1** _____
- 2** Write the FEIN for each 80/20 company, if applicable. **2** _____ - _____ - _____

Step 2: Figure your addition modification (All taxpayers - complete Lines 3 through 7)

- 3a** Amount of interest paid to each 80/20 company. **a** _____
- b** Interest exempt from the amount on Line 3a. **b** _____
- c** Subtract Line 3b from 3a. This is the interest amount you must include in the addition modification. **c** _____
- 4** Amount of dividends received from each 80/20 company. **4** _____
- 5** Subtract Line 4 from Line 3c. If negative, write the amount in brackets. **5** _____
- 6a** Intangible expenses paid to each 80/20 company. **a** _____
- b** Intangible expenses exempt from the amount on Line 6a. **b** _____
- c** Subtract Line 6b from 6a. This is the intangible expenses amount you must include in the addition modification. **c** _____
- 7** Add Lines 5 and 6c. If the result is negative, write "0" and see instructions. **7** _____

Step 3: Figure your subtraction allowance (All taxpayers - complete Lines 8 through 11.)

- 8** Write the amount of interest received from each 80/20 company. **8** _____
- 9** Write the lesser of Line 5 or Line 8. If Line 5 is negative, write "0." **9** _____
- 10** Write the amount of intangible income received from each 80/20 company. **10** _____
- 11** Write the lesser of Lines 6c, 7, or 10. If Line 7 is negative, write "0." **11** _____
- 12** Add lines 9 and 11. Write the result here and on Line 13. **12** _____

13 Write the amount from Line 12.

13 _____

80/20 companies only - complete Lines 14 through 20

14 Write the name and FEIN of the U.S. company that paid you interest or intangible expenses. **Name** _____
FEIN _____ - _____

15 Write the amount of interest received from the U.S. company. **15** _____

16 Write the amount of interest paid to you from the U.S. company's Schedule 80/20, Line 5. **16** _____

17 Write the lesser of Line 15 or Line 16. **17** _____

18 Write the intangible income received from the U.S. company. **18** _____

19 Write the amount of intangible expenses paid to you from the U.S. company's Schedule 80/20, Line 6c or Line 7, whichever is less. **19** _____

20 Write the lesser of Line 18 or Line 19. **20** _____

All taxpayers complete Line 21.

21 Add Lines 13, 17, and 20. Write the amount here and see instructions. **21** _____

Schedule 80/20 Instructions

General Information

Illinois law states that a unitary business group may not include any company that conducts 80 percent or more of its business outside of the United States. Domestic unitary members often use 80/20 companies as a means of reducing their Illinois income by paying what would normally be considered valid deductions, such as interest, royalties, and other "intangible expenses" to an 80/20 company that Illinois cannot tax.

Effective for tax years **ending on or after December 31, 2004**, you may not deduct some interest or "intangible expenses" from transactions with an 80/20 company. All interest and intangible expenses you deducted federally, that are in excess of any taxable dividends you received from the 80/20 company must be added back, unless an exception applies (see Specific Instructions).

You will be allowed to subtract the amount of taxable interest and dividend income you received from the 80/20 company, up to the amount of federally deductible interest or intangible asset income you received from that 80/20 company that is added back, unless an exception applies (see Specific Instructions).

What is the purpose of Illinois Schedule 80/20?

Illinois Schedule 80/20 provides the following calculations:

- to figure the amount of deductions the domestic unitary member must add back to its income;
- to allow the domestic unitary member to figure the correct amount of allowable, valid deductions; and
- to allow any 80/20 company with an Illinois filing requirement to take a deduction for the expenses on which the domestic company is being taxed.

Note → If you have more than three 80/20 companies to report, and additional space is needed, complete and attach additional Illinois Schedules 80/20. Report the totals in Column D of the last page.

Definitions

An "**80/20 company**" means any taxpayer who would be a member of a unitary business group with you, if not for the fact that 80 percent or more of its business activities are conducted outside the United States. For more information, see the section on the "80/20 rule" in "What is a unitary business group" in the instructions to the Schedule UB, Combined Apportionment for Unitary Business Group.

"**Intangible expenses**" means royalties and fees paid for intangible assets, losses incurred on sales or other dispositions of intangible assets to an 80/20 company, losses on factoring or discounting transactions with an 80/20 company, and deductible expenses incurred in connection with the acquisition, use, management, or sale or other disposition of an intangible asset.

"Intangible assets" include patents, patent applications, trade names, trademarks, service marks, copyrights, mask works, trade secrets, and similar types of intangible property.

"**Related party**" means

- a brother, sister, spouse, ancestor or lineal descendant of an individual;
- an individual and a corporation more than 50 percent in value of the outstanding stock of which is owned directly or indirectly, by or for such individual;
- two corporations which are united by common ownership, even if the corporations are not members of a unitary business group;
- a grantor and a fiduciary of any trust;
- a corporation and a partnership if the same persons own more than 50 percent in value of the outstanding stock of the

corporation, and more than 50 percent of the capital interest, or the profits interest, in the partnership;

- an S corporation and any of its shareholders;
- an S corporation and another S corporation if the same persons own more than 50 percent in value of the outstanding stock of each corporation;
- an S corporation and a C corporation, if the same persons own more than 50 percent in value of the outstanding stock of each corporation;
- a partner and its partnership and each of the other partners in that partnership.

Unitary business groups

If you are a member of a unitary business group, one Illinois Schedule 80/20 should be completed for the entire group. Complete Illinois Schedule 80/20 showing in the column for each 80/20 company all of the disallowed interest and intangible expense deductions paid by all members of the unitary business group to the 80/20 company, or all of the interest, intangible asset income, and dividends received by every member of the unitary business group from the 80/20 company. Members of the unitary business group who do not join in a combined return should attach a copy of the unitary Illinois Schedule 80/20 to their separate returns.

80/20 companies that received interest or intangible asset income from more than one member of a unitary business group should report these amounts as if received from a single person.

Specific Instructions

Line 1 - Write the name of each 80/20 company to whom you paid interest or intangible expenses you are required to add back.

Line 2 - Write the FEIN (if applicable) for each 80/20 company listed in Line 1. If the 80/20 company does not have a FEIN, leave that column blank.

Line 3a - Write all interest you paid to each 80/20 company and deducted in computing base income in this tax year.

Line 3b - Write the amount of interest that is exempt from add-back because

- the 80/20 company is subject to an income tax on that interest in a foreign country or another state, other than a state that requires you and the 80/20 company to file as members of a unitary group;
- the 80/20 company paid interest during the tax year to an unrelated party, but only if your arrangement with the 80/20 company did not have a principal purpose of reducing your Illinois income tax liability, and the terms and interest rates of your arrangement with the 80/20 company are the same as they would be with an unrelated party;
- your arrangements with the 80/20 company did not have a principal purpose of reducing your federal or Illinois income tax liability, and the terms and interest rates of your arrangement with the 80/20 company are the same as they would be with an unrelated company;
- you can establish that the add-back is unreasonable; or
- the department has given you written permission to use an alternative apportionment formula and to deduct this interest. See the instructions of your income tax return for more information.

Line 3c - Subtract Line 3b from Line 3a.

Line 4 - Write all dividends received from each 80/20 company, plus any amounts included in gross income under the Internal Revenue Code (IRC) Section 78 and Sections 951 through 964, but only to the extent such amounts are included in your base income for this tax year.



Line 5 - Follow the instructions on the form.

Line 6a - Write all intangible expenses incurred in transactions with each 80/20 company that you deducted in computing base income in this tax year.

Line 6b - Write the amount of intangible expenses from transactions with an 80/20 company that is exempt from add-back because,

- the 80/20 company is subject to an income tax on its income resulting from your expense in a foreign country or another state, other than a state that requires you and the 80/20 company to file as a members of a unitary group;
- the 80/20 company incurred a similar, related expense during this tax year in a transaction with an unrelated party, but only if your arrangement with the 80/20 company did not have a principal purpose of reducing your Illinois income tax liability, and the terms and rates of your arrangement with the 80/20 company are the same as they would have been with an unrelated party;
- you can establish that the addback is unreasonable; or
- the department has given you written permission to use an alternative apportionment formula and to deduct this expense. See the instructions of your income tax return for more information.

Line 6c - subtract Line 6b from Line 6a.

Line 7 - Columns A, B, and C:

For each 80/20 company

- if the amounts on Lines 5 and 6c are positive, add Line 5 and Line 6c.
- if the amount on Line 5 is negative, subtract Line 5 from Line 6c, and write the result. If the result is negative, write "0."

Column D: Add the amounts in Columns A, B, and C, and write the total in Column D. Include the amount in Column D on your

- Form IL-1120, Line 6,
- Form IL-1120-ST, Line 18,
- Form IL-1065, Line 18, or
- Form IL-1041, Line 8.

Complete Lines 8 through 12 only if you had an add-back on Lines 3 through 7.

Line 8 - If you received interest from an 80/20 company listed on Line 1, write the amount included in your base income for each 80/20 company.

Line 9 - Follow the instructions on the form.

Line 10 - If you received income from transactions involving intangible assets with an 80/20 company listed on Line 1, write the amount included in your base income for each 80/20 company.

Line 11, 12, and 13 - Follow the instructions on the form.

Lines 14 through 20 should only be completed by an 80/20 company that is allowed a subtraction modification because the U.S. company it is affiliated with must add-back any portion of interest or intangible expenses it paid to the 80/20 company.

Line 14 - Write the name and FEIN of the U.S. company or the designated agent of the unitary business group that was disallowed a deduction for the interest or intangible expenses paid to you.

Line 15 - Write the total amount of interest received from the U.S. company that you included in your base income for this tax year, net of any related expenses.

If negative, leave blank, skip Lines 14 and 15 and go to Line 16.

Line 16 - Write the amount from Line 5 of the Illinois Schedule 80/20 filed by the U.S. company for this tax year with respect to interest paid to you. If negative, write "0."

Line 17 - Follow the instructions on the form.

Line 18 - Write the total amount of intangible asset income received from the U.S. company that you included in your base income for this tax year, net of any related expenses.

If negative, leave blank, skip Lines 17 and 18, and go to Line 19.

Line 19 - Write the lesser of Line 6c or Line 7 of the Illinois Schedule 80/20 filed by the U.S. company for this tax year with respect to intangible expenses incurred in transactions with you.

Line 20 - Follow the instructions on the form.

Line 21 - Add the total amounts in Column D, Lines 13, 17, and 20. Write the total here and on

- Form IL-1120, Line 21,
- Form IL-1120-ST, Line 32,
- Form IL-1065, Line 32, or
- Form IL-1041, Line 22.